



Competition Commission final measures on audit competition

Mandatory 10 year audit tendering for FTSE 350s

The Competition Commission has published its final report on the UK audit market including remedies to address what it considers to be restrictions on competition. The remedy package aims to promote competition and to meet the needs of shareholders better. Key points include:

Audit tendering – FTSE 350 companies must put their statutory audit out to tender at least every 10 years. This is stronger than the UK Corporate Governance Code provision which is subject to ‘comply or explain’. There will be transitional provisions. The Commission’s provisional report in July provided for a 5 year tendering interval. It still feels many companies would benefit from going out to tender every 5 years and so will require any company which has not tendered for 5 years or more to state in its Annual Report which year it plans to go out to tender and why it believes this is in the best interests of shareholders.

FRC review – the FRC’s Audit Quality Review team (AQR) should review every FTSE 350 company’s audit engagement on average every 5 years. The company’s audit committee should report the results of this review to shareholders.

Loan agreement restrictions prohibited – provisions in loan agreements restricting a company’s choice of auditor will be prohibited.

Advisory vote – there must be an advisory vote put to shareholders at the AGM on the sufficiency of the disclosures contained in the audit committee’s report in the Annual Report.

Audit committee – the accountability of the external auditor to the audit committee should be increased, including stipulating that only the audit committee can negotiate audit fees and the scope of audit work, initiate the tender process and make recommendations on the appointment of auditors, and authorize them to carry out any non-audit services.

FRC’s objectives – the FRC should amend its articles to add an objective to have regard to competition.

See the full report at:

<http://tinyurl.com/psvo8tj>

The Commission will now draw up an Order to implement the elements of the remedy package it can require (including mandatory audit tendering) and expects these will come into force from Q4 2014. Other measures will be taken forward by the FRC.

To find out more, or to discuss your 2013 board evaluation or governance reporting needs, contact Julia Casson at juliacasson@boardinsight.co.uk or on **0844 544 6985**.

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